

## Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 IO-13 ISO-00 AGRE-00 SSO-00 NSCE-00

USIE-00 INRE-00 CIAE-00 COME-00 INR-07 LAB-04

NSAE-00 EPG-02 SP-02 STR-04 TRSE-00 FRB-03 OMB-01

SS-15 NSC-05 L-03 ITC-01 AF-10 ARA-10 EA-07

NEA-10 OIC-02 PRS-01 PA-01 /121 W

-----020298 121356Z /46

O 121325Z JUL 77

FM AMEMBASSY BRUSSELS

TO SECSTATE WASHDC IMMEDIATE 0788

INFO USMISSION GENEVA

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USEEC

PASS AGRICULTURE ELECTRONICALLY FOR SECRETARY BERGLAND  
GENEVA FOR USMTN

E.O. 11652: N/A

TAGS: EAGR, EEC

SUBJ: GUNDELACH-BERGLAND MEETING, JULY 14

REF: (A) EC A-259, (B) 76 EC A-261, (C) LONDON 10712

1. SUMMARY: A SUBSTANTIAL INCREASE IN THE EC GRAIN CROP IS EXPECTED THIS YEAR. THE EFFECT OF THE INCREASED EC CROP ON THE WORLD MARKET DEPENDS TO A CONSIDERABLE EXTENT ON THE POLICIES FOLLOWED BY THE EC COMMISSION. THE MISSION RECOMMENDS THAT SECRETARY BERGLAND INITIATE A DISCUSSION OF U.S. AND EC POLICIES IN THE GRAIN SECTOR OVER THE COMING YEAR WITH COMMISSIONER GUNDELACH AT THEIR JULY 14 MEETING. THIS DISCUSSION SHOULD AIM TO ENCOURAGE THE EC TO BUILD GRAIN STOCKS UNILATERALLY IN 1977/7--EVEN BEFORE THE IMPLEMENTATION OF ANY AGREEMENT REACHED IN THE IWC. END SUMMARY.

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2. WHILE IT IS STILL EARLY IN THE CROP YEAR, IT APPEARS THAT THE EC IS HEADING FOR A TOTAL GRAIN CROP OF 105 MILLION TONS OR MORE IN 1977--UP SHARPLY FROM LAST YEAR'S POOR CROP OF 90.5 MILLION TONS. IT ALSO APPEARS THAT THE EC HARVEST OF FORAGE AND ROOT CROPS WILL BE MUCH IMPROVED FROM LAST YEAR, WHICH MAY SOMEWHAT REDUCE DEMAND FOR GRAINS. CONSEQUENTLY, THE EC'S NET

IMPORT DEFICIT FOR GRAINS SHOULD BE SUBSTANTIALLY REDUCED  
IN 1977/78.

3. THE EFFECT OF THIS CHANGED SUPPLY/DEMAND SITUATION  
ON THE WORLD MARKET WILL BE GREATLY INFLUENCED BY THE  
POLICIES PURSUED BY THE COMMUNITY. BASICALLY THE EC  
WILL HAVE THREE POLICY OPTIONS:

A. INCREASE EXPORTS.

B. INCREASE THE FEED USE OF DOMESTIC GRAINS--IN  
PARTICULAR, WHEAT.

C. BUILD STOCKS.

BY VIRTUE OF ITS MANAGEMENT OF EC EXPORT POLICY, THE  
COMMISSION WILL BE ABLE TO CONTROL TO A LARGE EXTENT  
THE DIRECTION OF POLICY RE THE GRAIN MARKET WITHOUT  
SEEKING THE APPROVAL OF THE COUNCIL.

4. FROM THE U.S. POINT OF VIEW, AN EC POLICY EMPHASIZING  
STOCK BUILDING WOULD, OF COURSE, BE THE MOST FAVORABLE.  
COMMUNITY PARTICIPATION IN AN IWC AGREEMENT SHOULD, OF  
COURSE, RESULT IN HIGHER EC STOCK LEVELS. HOWEVER, EVEN  
IN THE EVENT THAT THE TIMETABLE FOR IWC TALKS REPORTED  
IN REF. C IS STRICTLY ADHERED TO, A NEW AGREEMENT WOULD  
NOT GO INTO EFFECT UNTIL JULY 1978. THUS, THE UNILATERAL  
POLICY PURSUED BY THE EC OVER THE COMING CROP YEAR IS  
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OF CONSIDERABLE SIGNIFICANCE TO US.

5. THERE ARE A NUMBER OF REASONS WHY THE COMMISSION  
ITSELF SHOULD BE INCLINED TO PURSUE A COURSE OF STOCK  
BUILDING:

A. GRAIN EXPORTS ARE LIKELY TO BE EXTREMELY COSTLY  
TO THE EC BUDGET IN 1977/78.

B. DESPITE RECENT CHANGES IN THE GRAINS CAP AIMED  
AT IMPROVING THE COMPETITIVENESS OF WHEAT AS A FEED  
GRAIN (REFS. A AND B), MOST OBSERVERS FEEL THAT WITH A  
LARGE CROP THERE WILL BE SURPLUS DISPOSAL PROBLEMS FOR  
EC WHEAT. IT WOULD BE POLITICALLY EMBARRASSING FOR THE  
COMMISSION TO RESORT TO MEASURES (E.G., DENATURING  
SUBSIDIES) AIMED AT INCREASING THE FEED USE OF WHEAT--  
IN PART BECAUSE THE COMMISSION HAS PREVIOUSLY CLAIMED  
THAT THE CHANGES IN THE GRAINS CAP WOULD OBIVIATE THE  
NEED FOR SUCH MEASURES.

C. EC GRAIN STOCKS ARE AT RATHER LOW LEVELS, ABOUT  
THE SAME AS AT THE START OF 1976/77. MOREOVER, EC  
INTERVENTION STOCKS OF GRAIN ARE AT EXTREMELY LOW LEVELS--

ABOUT 1 MILLION TONS FOR SOFT WHEAT (WITH MORE THAN HALF  
ALREADY EARMARKED FOR FOOD AID OR OTHER SPECIFIC USES)  
AND ABOUT 250,000 TONS OF RYE AND BARLEY. (BUT DURUM  
INTERVENTION STOCKS ARE AT A TROUBLESOME LEVEL OF  
400,000 TONS.)

ON THE OTHER HAND, A UNILATERAL EC STOCK BUILDUP MAY BE  
RESISTED ON THE GROUNDS THAT IT WOULD JEOPARDIZE THE EC  
POSITION IN THE IWC.

6. RECOMMENDATION: WE FEEL THAT THE USG SHOULD ENCOURAGE  
AND STRENGTHEN THE EC MOTIVATION TOWARDS A STOCK-ORIENTED  
POLICY IN 1977/78. THEREFORE, THE MISSION URGES THAT  
SECRETARY BERGLAND APPROACH GUNDELACH AS TO EC INTENTIONS  
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WITH REGARD TO GRAINS POLICY THIS YEAR AND BRING TO HIS  
ATTENTION U.S. AWARENESS OF AND INTEREST IN EC POLICY

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INFO OCT-01 EUR-12 IO-13 ISO-00 AGRE-00 SSO-00 NSCE-00  
USIE-00 INRE-00 CIAE-00 COME-00 INR-07 LAB-04  
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FM AMEMBASSY BRUSSELS

TO SECSTATE WASHDC IMMEDIATE 0789

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USEEC

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GENEVA FOR USMTN

OPTIONS. A DISCUSSION BY THE SECRETARY OF THE LIKELY DEVELOPMENTS IN U.S. POLICY IN THE COMING YEAR COULD REINFORCE EC ATTRACTION TO A STOCK-HOLDING POLICY. THE SECRETARY MIGHT ALSO POINT OUT THAT MODERATION IN EC EXPORT POLICIES WOULD HELP TO AVOID PROLIFERATION OF AGGRESSIVE NATIONAL EXPORT PRACTICES WHICH COULD UNDERCUT THE BASIS FOR A SUCCESSFUL CONCLUSION OF THE IWC AND MTN. HINTON

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